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Kenya MY 2012 Corn PSD and Trade Forecast

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Grain and Feed

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Report Highlights:

Amidst a recent barrage of global and national reports warning that global food prices are about to reach 2008 record-high levels, Kenyan consumers, for whom corn-flour prices equate to “food prices,” remain confident, even “food secure” now knowing that they can buy a two-kilogram bag of corn flour for about 70 Kenya Shillings (Ksh) (about $.82) in the local store, when they paid 120 Ksh ($1.40) for the same two-kilogram bag during 2008.

Kenyan consumer confidence may also have improved with the adoption of a new constitution and Bill of Rights that, under the Economic and Social Rights section, guarantees Kenyans the “right to be free from hunger and to have adequate food of acceptable quality.” With the first opportunity to elect a President under the new constitution coming in 2012, it seems likely that the current administration will assure domestic corn/products availability at reasonable prices during the upcoming marketing year 2012.

Executive Summary:

Kenyan corn growers may cross the line during the July 2011-to-June 2012 marketing year (MY 2012) from producing sufficient corn for the domestic market to producing an exportable corn surplus. Kenya does not have the corn-export infrastructure to compete on the world white corn market, and is surrounded by corn-producing nations that only very rarely have a corn-import need, thus setting the stage for very low producer and consumer prices in the 2012 election year.

In this report, FAS/Nairobi presents its first forecast of Kenya's marketing year white corn supply and demand featuring an exportable white-corn surplus that, rather than go into the export market, will likely augment ending stocks and/or be sold at steep discounts into the compound feed ingredients market. Farmers in the Great Rift Valley (grain basket) corn-growing region will begin to plant the MY 2012 corn crop within the next 30-to-60 days. Following on to the record yield achievement for this year's crop, the Government of Kenya (GOK) has again promised small-scale farmers free seed and fertilizer, which, based on the results of this year's crop will likely lead to another and new record-high average yield of just over two metric tons per hectare for the MY 2012 crop. The GOK has also promised subsidized fertilizer to farmers who don't qualify for the "free" program.

Regarding the current corn supply and demand situation, while domestic corn farmers are pushing the GOK to increase its current offer-price, the domestic corn millers are calling on the GOK to abate the 50 percent ad-valorem tariff to facilitate increased white corn availability in the domestic market. For domestic corn producers, the higher prices they are asking the GOK to pay may be based on the constantly-reported notion that world food prices are about to reach record-high 2008 levels. Growers clearly remember the previously high domestic corn price achieved during calendar year 2008, when world food prices reached new record high levels, and are trying to force a return to those prices before selling the last of this year's crop in to the domestic market.

This report follows FAS/Nairobi's last corn update report of July 27, 2010.

Production

FAS/Nairobi forecasts record-setting yields and production in MY2012 on the heels of the MY 2011 record corn yields (please see the yield graph here below). To achieve last year's record average yield, the GOK began a program of handing out free seed and fertilizer to many small-scale farmers.

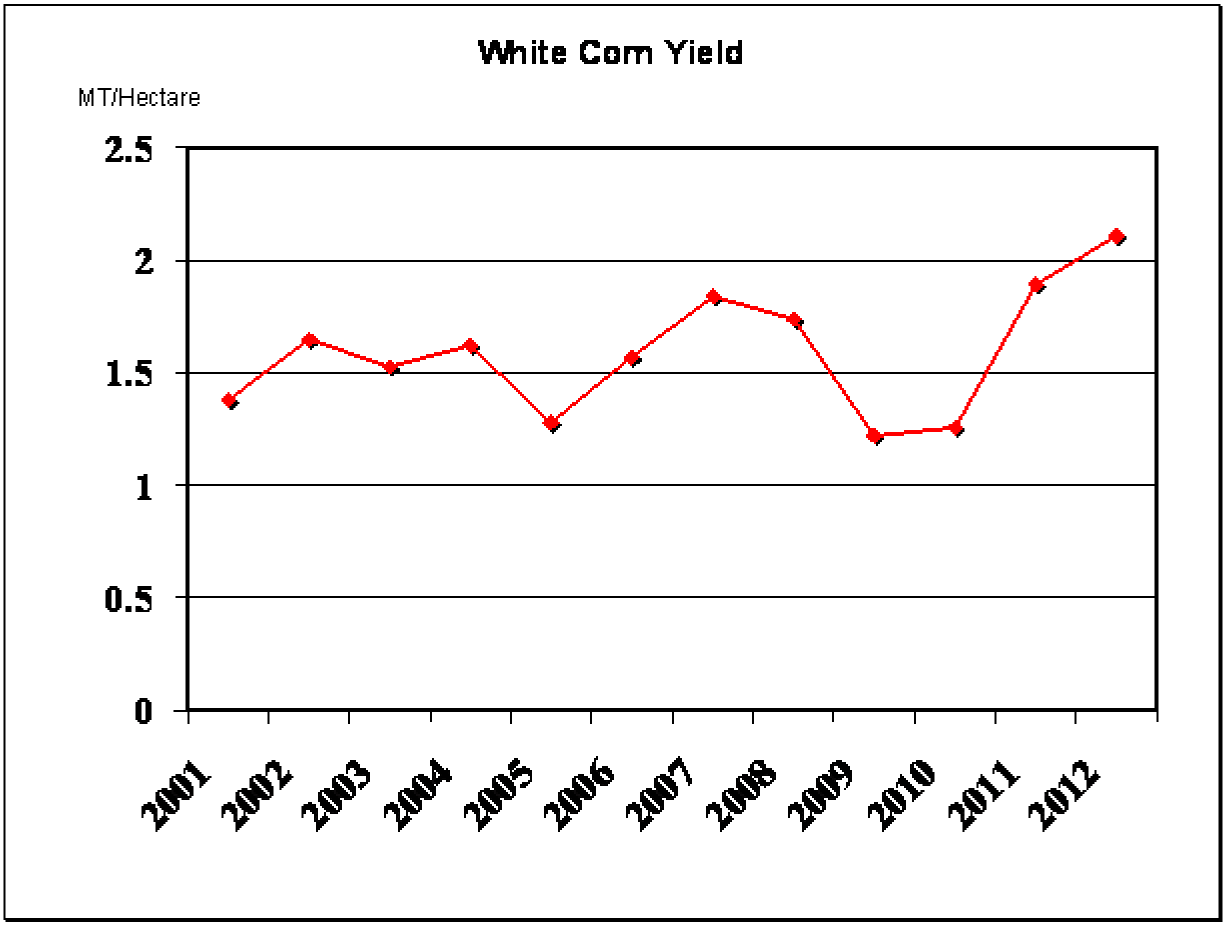
For the MY 2012 crop, the GOK has about 2.4 billion Kenya Shillings (Ksh) (about $28 million) and last year's experience to help them subsidize small-scale corn farmers. The 2.4 billion Ksh is comprised of 250 million Ksh from the GOK and the balance will reportedly be donated by development partners. The GOK will provide free corn seed, fertilizer and some chemicals in all of the main growing districts. The individual farmer "package" amounts to about 9,000 Ksh ($105) in a combination of seed, fertilizer and some chemicals.

For the farmers who can't take advantage of the relatively modest contribution noted above, the GOK has also implemented a subsidized fertilizer scheme for all corn farmers. The GOK imports fertilizer (Kenya does not produce chemical fertilizer) through the National Cereals and Produce Board (NCPB) and sells it to farmers through the same NCPB at about a 900 Ksh per 50 kilogram bag discount to the import price. The GOK has set aside 3.84 billion Ksh ($45 million) for the March-April planting season for the MY 2012 crop.

MY 2011 production data published by the GOK continues to indicate a strong yield performance from this year's corn crop. Currently, the GOK ministry of agriculture analysts estimate that production could reach almost 40 million 90-kilogram bags or about 3.5 million metric tons. But, even at the FAS/Nairobi estimate of 3.4 million tons, in the supply and demand (S&D) table here below, Kenya's corn producers achieved a record 1.89 tons per hectare.

Corn Kenya	2009/2010		2010/2011		2011/2012	
	Market Year Begin: Jul 2009		Market Year Begin: Jul 2010		Market Year Begin: Jul 2011	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	1,800	1,750	1,800	1,800		1,800
Beginning Stocks	349	349	139	168		313
Production	1,900	2,200	3,000	3,400		3,800
MY Imports	1,000	700	300	100		10
TY Imports	1,000	400	300	100		10
TY Imp. from U.S.	0	0	0	0		0
Total Supply	3,249	3,249	3,439	3,668		4,123
MY Exports	10	1	25	5		5
TY Exports	10	1	25	5		5
Feed and Residual	100	100	100	300		300
FSI Consumption	3,000	2,980	3,000	3,050		3,100
Total Consumption	3,100	3,080	3,100	3,350		3,400
Ending Stocks	139	168	314	313		718
Total Distribution	3,249	3,249	3,439	3,668		4,123
1000 HA, 1000 MT						

Data Source Notes: MY2012 FAS/Nairobi Forecasts; MY2011 Trade Estimates from GTA, otherwise FAS/Nairobi Estimates; MY2010 Trade Estimates from GTA, Area Harvested and Production from Kenya Ministry of Agriculture.



Data Source Notes: MY2011 and 2012, FAS/Nairobi Estimates and Forecasts; MY2001-2010 Area Harvested and Production from Kenya Ministry of Agriculture.

Import Policy

The GOK protects domestic corn producers from competition from non-East African Community (EAC) producers via a very high tariff wall. The EAC currently applies a 50 percent ad-valorem tariff through the EAC common external tariff. The GOK can and does petition the EAC to abate the tariff in times of "food insecurity" due to poor domestic harvest. On the last occasion, when the EAC, on behalf of the GOK, abated the tariff, during part of MY 2009, U.S. white corn producers shipped just over 200,000 tons commercially to help Kenya address its food security needs.

Recently, Kenya's cereal millers association asked the GOK to abate the 50 percent ad-valorem tariff using the argument that millers will run out of corn in the May/June period, just before the MY 2012 harvest begins in July/August. The abatement could be justified in the name of fortifying Kenya's "food security," as argued by the millers, but the more likely scenario will see Kenya's traders importing "unregistered and informal" white corn imports from neighboring Tanzania and Uganda, whenever the Kenya's maize price attracts neighboring supplies.

In fact, GOK officials have repeated on numerous occasions that the Government will not ask the EAC to abate the corn ad-valorem tariff this marketing year (with an extra exclamation mark after the word “not”) especially for imports from South Africa. The GOK has not yet enacted the provisions of a new Bio-Safety Act that will regulate imports of genetically modified corn. Without those regulations, traders and importers bringing in South African corn would likely be accused of importing “toxic maize.” Kenyan politicians frequently use the words “toxic maize” to describe corn produced outside of Kenya.

Trade and Trade Policy

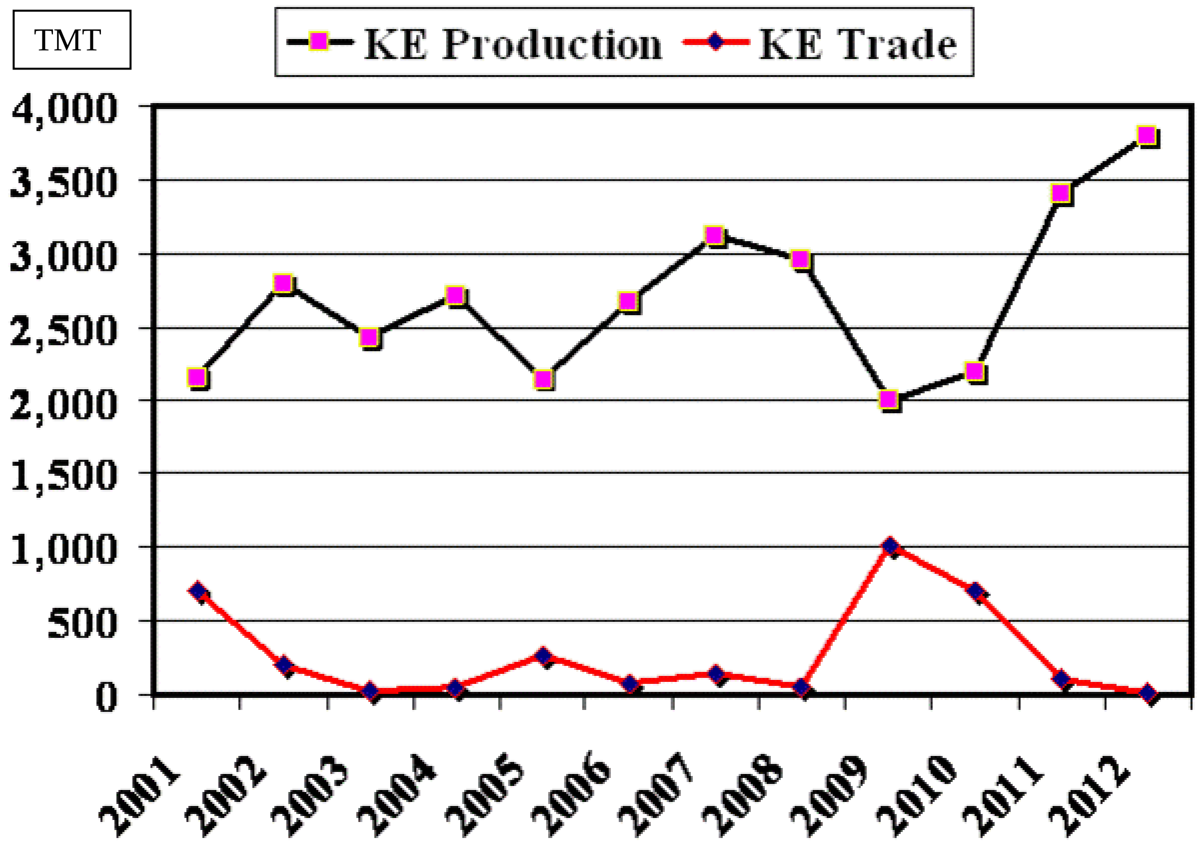
Neighboring Tanzanian and Ugandan corn growers always seem to manage exportable surpluses when Kenyan corn prices reach economically-interesting levels. Even though the Government of Tanzania (GOT) has a corn export ban currently in place to preclude Tanzanian farmers from selling their corn harvests to Kenya, they will find ways of selling around the ban. The GOT claims that Tanzanian corn farmers sell to Kenyan traders and then come looking to the GOT for food during the “hungry” period just before the subsequent harvest.

Kenya also has a corn export ban on the books, but regardless of the trade policies enacted between EAC neighbors, traders will continue to move a steady flow (albeit in small unregistered lots) of corn into Kenya from Tanzania and Uganda and into South Sudan from Kenya and Uganda, if the local prices provide the incentive. The corn export bans simply increases the transfer costs and slows the export pace between neighboring countries, but trade continues.

Because of the just described scenario, FAS/Nairobi held MY 2012 import and export forecasts at a minimum and increased the estimate of MY 2011 corn imports by 90,000 tons, to 100 thousand tons reflecting an increased estimate of unregistered/informal imports from Tanzania and Uganda. Ugandan and Tanzanian corn farmers are purely price takers and the highest attainable price for them may be in Kenya, even factoring in the trade restrictions and logistical difficulties inherent in cross-border trade.

FAS/Nairobi will update the other east African corn supply and demand tables in the near future. However, given the forecast for Kenya and given that increased farm-level corn yields are the focus of much Government and Donor support, the regional exportable surplus of corn could be staggering during MY 2012 and well into the future.

As indicated in the graph below, however, when Kenyan corn producers achieve a strong production performance, formal trade grinds to halt. Kenya’s neighbors, who also focus on corn production, rarely become markets for Kenyan-produced corn.



Data Source Notes: MY2012 FAS/Nairobi Forecasts; MY2011 Trade Estimates from GTA, otherwise FAS/Nairobi Estimates; MY2001-2010 Trade Estimates from GTA, Production from Kenya Ministry of Agriculture.

Implied Production and Price Policies

The GOK is not currently offering domestic corn farmers the maximum calculated price that could be achieved using world price/ad-valorem tariff calculation formula. Instead the GOK, through the National Cereals and Produce Board, has been offering corn growers “domestic market” prices, reportedly commensurate with the local domestic supply and demand situation. GOK officials consistently report that Kenyan corn producers achieved a “bumper” corn crop this marketing year, MY 2011, even to the extent that it may exceed domestic demand, and as such have been unwilling to meet producer demands for higher buy-in prices.

Theoretically, the maximum sustainable Kenya domestic farm-gate corn price, that would not encourage imports at the 50 percent ad-valorem tariff level, could have been calculated by taking the price of maize at export port (for example, Durban, South Africa) and then adding to it the following: sea freight to Mombasa, the calculated tariff of 50 percent ad-valorem CFI Mombasa, inland shipping costs (port to millers facilities) and additional handling and processing fees associated with getting the corn to the domestic miller’s doorsteps.

The GOK's tariff and subsidized inputs policies appear to support domestic farmers; keeping in place the 50 percent ad valorem tariff to keep world-price corn out of the Kenyan market; and, giving farmers seed and fertilizer to help them achieve increased farm-level yields at lower farm-level production costs. However, when the GOK achieves success (as was the case during 2011 and forecast for MY 2012) and domestic producers have the capacity to (MY 2011) and will likely over-supply (MY 2012) the domestic market, potentially causing domestic farm-gate corn prices to plummet (forecast for MY 2012).

Toxic Aflatoxin in Kenya's Corn Harvests

Toxic aflatoxin continues to plague Kenya corn quality and threatens the health of humans and animals consuming aflatoxin-tainted corn and corn products. Levels of toxic aflatoxin in excess of Kenyans maximum allowable ten parts per billion (PPB) for human consumption and 20 PPB for most animal consumption (for pets the maximum tolerable limit appears to be much lower even though it is not regulated) have been widely reported in this year's corn crop.

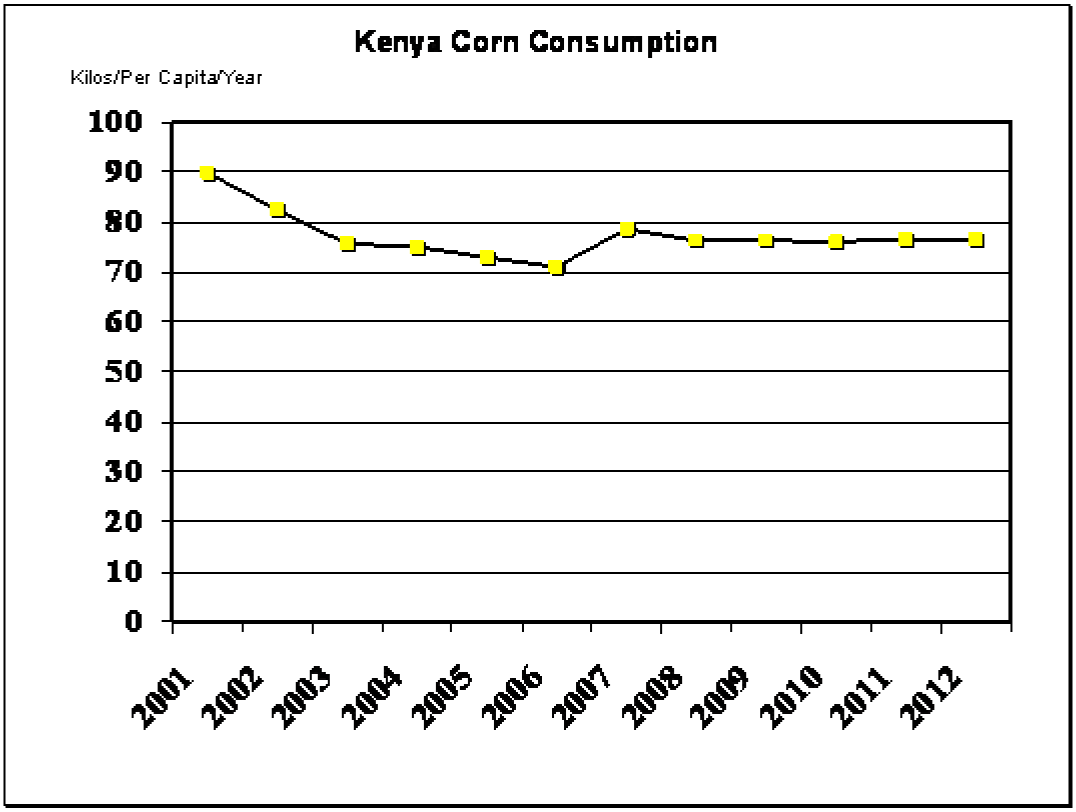
One of Kenya's major corn millers and compound-feed producers reportedly tests for aflatoxin in every incoming load of corn. The miller/compound feed manufacturer reportedly rejects truckloads that exceeds Kenya's maximum allowable limit, apparently turning away several truckloads of corn every day. In the MY 2011 supply and demand table, FAS/Nairobi shows some of the aflatoxin-contaminated corn flowing in to feed use and therefore added to the "feed consumption" line of indicators.

This aflatoxin-contaminated corn may not be fit for consumption by animals, but the common practice in Kenya is to feed it to the animals. Aflatoxin-contaminated corn, when fed to animals, threatens their health, but if they survive the aflatoxin ingestion, they pass the aflatoxin contamination into their meat and milk products, which are then consumed by humans.

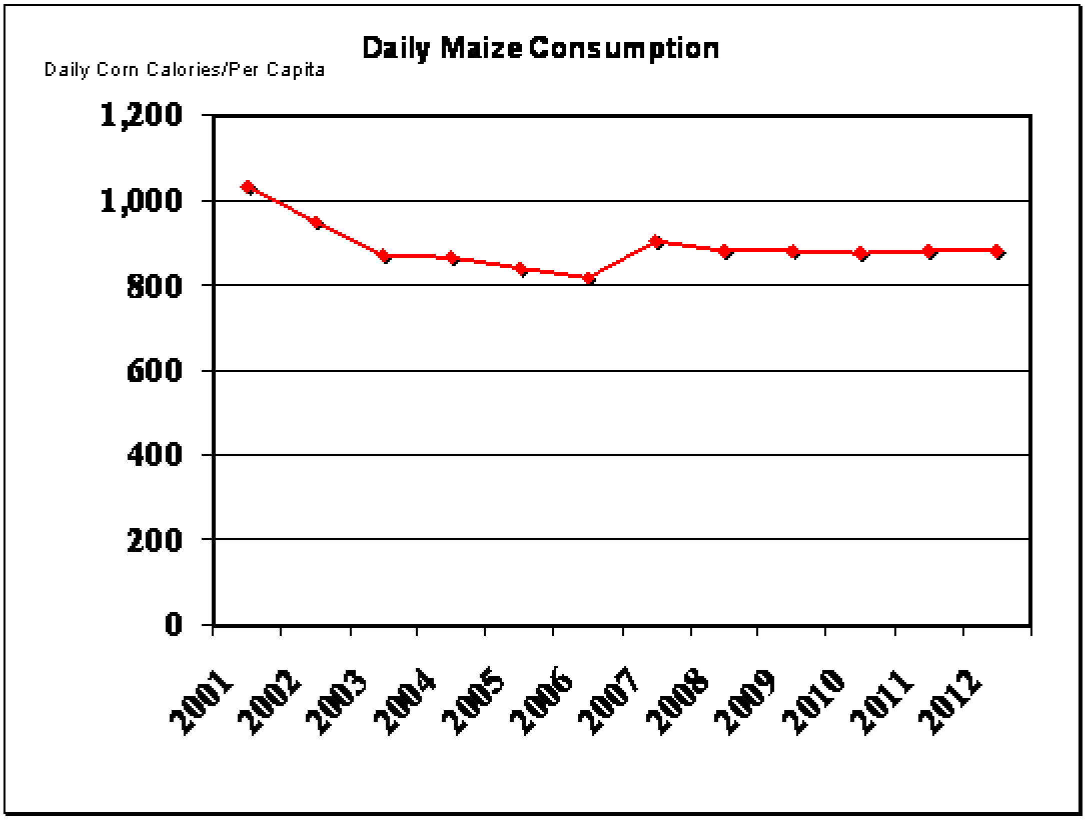
On an upbeat note, the Governments of Kenya and the United States, through the respective agriculture and plant and food safety ministries, along with implementing partners, have established toxic-aflatoxin-abatement trials in Kenya. Through the trials, scientists will test a strategy engineered by Dr. Peter Cotty of U. S. Department of Agriculture's Agricultural Research Service to limit the propagation of toxic aflatoxin by crowding it out of the farm soil planted to corn through increased propagation of non-toxic aflatoxin strains. The strategy has proven successful in the United States and Nigeria where the trials were positive and commercial manufacturers have taken up production and sales of the non-toxic aflatoxin application.

Domestic Consumption

Kenyan consumers will likely continue to consume about 76 kilograms of corn and corn products yearly. This equates to just over 800 calories per day derived from corn/products. Some observers say that Kenyan consumers should diversify their diet by reacquainting themselves with "old guard" drought-resistant crops (commonly known in Kenya as orphan crops) like sorghum, millet and cassava. However, Kenyans continue to prefer corn/products as demonstrated by the constant consumption levels in the graphs below.



Data Source Notes: MY2001-2012 FAS/Nairobi Estimates and Forecasts; MY2001-2010 Population Estimates from the GOK Population Census.



Data Source Notes: MY2001-2012 FAS/Nairobi Estimates and Forecasts; MY2001-2010 Population Estimates from the GOK Population Census.